

Chief Executive Dermot Byrne

EirGrid Annual Customer Conference

Wednesday 15th October, 2008

Crowne Plaza Hotel, Santry

Thank you very much Minister Ryan. And I too would like to welcome you all here to the Crowne Plaza for this year's Annual Customer Conference.

12 months ago when we were all gathered here in this room for the 2007 Customer Conference, I don't think anyone foresaw the enormity of the economic challenges we currently face.

There is nobody in this room who will not be affected by the global credit crisis or by the hard landing that has hit the Irish economy over the past months. I believe that Minister Ryan and his cabinet colleagues are to be commended

for the firm and decisive action they are taking on all our behalf's, to get us back to something approaching normality as soon as possible.

Against that background it might have seemed inauspicious to be launching a €4 billion investment programme on the very day that governments and central banks around the world were announcing plans to save the global financial system! Nevertheless that is exactly what the Chairperson and I did with Minister Ryan last Wednesday when we launched Grid25. I will come back to that later, but first I would like to take some time to talk about some of the events and key milestones we encountered over the past 12 months; and to touch on some of the challenges ahead.

As we are all aware, the last few years have seen extraordinary changes in global electricity markets, as climate change and energy security have moved to the top of social, business and political agendas.

In addition, the price of fossil fuels on global markets, together with the volatility in these prices and the knock on impact on electricity prices, is putting serious pressure on the competitiveness of Irish industry.

These challenges are driving major changes in the shape of our industry, with a particular focus on Energy Security, Competitiveness and Sustainability.

I believe these challenges are driving change and innovation - first and foremost in energy efficiency, as businesses and households respond to

mitigate the impact of higher energy costs. They are also bringing new levels of wind generation - both on and offshore - and the eventual arrival of commercial ocean energy to Ireland.

To complement these generation technologies there is also a requirement for flexible conventional generation, and the market structures and networks that encourage competition with knock-on benefits for consumers.

We in EirGrid are conscious of the pivotal role we have to play in enabling Ireland to meet these challenges. As the independent electricity Transmission System Operator, EirGrid is tasked with putting in place the grid infrastructure required to support the development of Ireland's economy.

There have been some significant milestones since we last met. Shortly after last year's conference the Single Electricity Market went live.

This was a ground-breaking achievement, marking the successful transition from the old jurisdictional market arrangements that applied in the Republic of Ireland and Northern Ireland to the new Single Electricity Market.

Together with our partner SONI, and working closely with the regulatory authorities and all market participants, EirGrid played a major role by delivering the central systems and processes that are required for the operation of the market.

This development was extremely complex, requiring more than two years of detailed planning and project implementation, and ultimately involving 290 people in 86 separate work streams. The project was delivered successfully, on time and within budget, and the market went live on November 1st 2007.

The Market provides an all-island platform for the wholesale trading of electricity, and represents a significant step in developing a truly competitive industry which, ultimately, will put downward pressure on prices.

Further investments in the Single Electricity Market-related systems and processes have taken place during 2008 and, I am happy to say, the market is running successfully.

And, eight months on from the go-live date, there was a further significant development with our agreement to purchase SONI from NIE. Completion of this deal is of course subject to agreement with the Regulatory Authorities on the necessary licence changes.

EirGrid and SONI are already joint venture partners in SEMO, and there is a high degree of TSO to TSO co-operation in the operation and optimisation of our respective systems.

SONI has an established and committed management team with a strong track record in the safe and reliable operation of the Northern Ireland transmission network. It is expected that SONI will continue as a distinct

licensed entity with its existing staff and management team remaining in place.

I believe that the acquisition of SONI by EirGrid will further enhance the significant work already undertaken by EirGrid, SONI, the regulatory authorities and the government departments in both jurisdictions in establishing the Single Electricity Market.

I see this very much as a practical step, building upon the common work which has been going on in relation to electricity markets in each jurisdiction. For us and the regulatory authorities, this is about delivering benefits to customers.

EirGrid and SONI have demonstrated a strong track record in working together and I believe there will be further synergies that will emerge post-acquisition.

With regard to renewables, I am pleased to say that there has been significant progress with wind energy over the past 12 months.

We now have a total of 915MW connected, and between contracted and live offers there is another 1600MW in the pipeline. And then there is Gate 3, which is also progressing and we expect the regulator to issue a final direction on this shortly.

Another major milestone in EirGrid's development took place this year, with the relocation of the entire business to new premises at the Oval in Ballsbridge.

This move severs a link with the Fitzwilliam Street premises that housed the transmission system operation function, and with it the National Control Centre, for more than 50 years.

I am confident that the strong culture of public and customer service inherited from those who operated the system over those 50 years will continue to be evident from an independent EirGrid operating from our own premises at The Oval.

Looking ahead, the environment in which EirGrid operates is a very dynamic one, driven by key issues around security of supply, competitiveness and sustainability.

Last year saw major policy responses to these concerns at global, European and national levels.

The need to address global warming was given added urgency through the published work of the Intergovernmental Panel on Climate Change, and the important decision which was taken at the UN Climate Change Conference in Bali to begin talks on a successor agreement to the Kyoto Protocol.

At EU level, the Commission has brought forward its proposals for a third package of measures to promote energy market liberalisation and the development of a competitive energy market across Europe. The Commission has also set out an ambitious plan for tackling climate change, and has adopted a proactive leadership role in the global debate on this issue.

The Irish Government's policy framework on the issues of security of supply, competitiveness and sustainability was set out in the Energy White Paper.

It is clear from the proactive response to the White Paper by Government departments, state agencies and industry generally that policy in this area will evolve rapidly.

EirGrid has a key role in delivering some of the core elements of the policy framework;

- through facilitating the integration of increased quantities of renewable generation on to the power system
- through completing the East–West Interconnector project.
- And through developing the transmission grid in a safe, reliable and affordable manner.

The East-West Interconnector is of strategic national importance to Ireland. Working closely with CER, EirGrid has been entrusted with the development and ownership of it by Government.

The Interconnector will provide a link between the electricity grids of Ireland and Britain, facilitating the two-way flow of electricity under the Irish Sea as and when needed.

Significant progress has been made to date. The interconnector termination points in Ireland and Wales have been selected and secured; a sea-bed survey has been completed; a number of viable tenders have been received and are being evaluated; and we hope to appoint a winning bidder by the end of the year.

The project remains on track to meet the target completion date of 2012.

Work is also well under way on strengthening the grid in the North East of the country, which includes an interconnector between Cavan and Tyrone. These projects will facilitate the cross-border sharing of electricity, promoting better competition and ensuring the secure supply of electricity throughout the North East of Ireland.

As many of you are aware, there is local opposition to these North East projects. And last week saw the publication of a report commissioned by an umbrella North East lobby group which stated that the lines should be buried underground.

We have always welcomed input from any members of the public which feeds into the decision making process of the proposed projects for the North East.

We are carefully studying the report and will make our project team available to meet with the group to discuss it in detail.

However, it is important for people to remember what international experts ECOFYS said in its independent report on Electricity Transmission Infrastructure published in July.

The report, which was commissioned by Minister Ryan's department, pointed out that nowhere in the world are there underground cables of the lengths required for the proposed 400kV power lines.

It also stated that underground transmission cables can be expected to have forced outage rates which are at least 10 times higher than that of overhead lines.

ECOFYS estimated that the capital costs of underground cables would be about five times that of overhead lines and the lifecycle costs would be about three times that of overhead lines.

It concluded – and I quote - that “underground cables do not therefore compare to overhead lines in terms of adequacy of the electricity transmission system and in terms of reliability and security of electricity supply.”

Underground cables of the length we need are currently just not technically or economically feasible to build. No one has done it anywhere else in the world

and I would point out that 99% of similar transmission lines in Europe are overhead.

We are sensitive to the issues raised by the North East projects. Putting in place infrastructure is never easy and requires sensitivity to differing needs and concerns.

We in EirGrid, in common with other developers of infrastructure, have an obligation to balance the provision of reliable services with the costs to the customer and with the impact of infrastructure on the environment.

This leads me to Grid**25**, the Grid Development Strategy that I mentioned at the outset.

Grid**25** is a major, long-term infrastructure investment programme aimed at doubling the capacity of the bulk transmission grid over the next 17 years.

More than that, it is a different approach to developing the grid into the future

- One that represents Value for Money for the consumer
- One that facilitates Ireland in accessing the very significant renewable resources that we have in this country, and
- One that provides the platform for renewed economic growth (once we get over the current difficulties) at a national but also at a regional level

The strategy explicitly states its goal of striking a balance between costs, reliability and the environmental impact. In particular it endeavours to minimise the net length of new line build in a region.

Why is such an approach necessary?

Firstly, I think everybody understands that electricity is vital for economic growth, and that the transmission grid, as the backbone of the power system, must be adequate to provide the platform for renewed economic growth.

Secondly, we have to provide the infrastructure to enable each county and each region to fully participate in that growth, and to make sure that each consumer and business - no matter where they are located - can access reliable and high quality power.

Thirdly, the government has set challenging targets for renewables as part of the energy mix. We have to make sure that the grid capacity is there to transport this renewable energy from where it is generated to where it is consumed

Ireland's economy will continue to grow despite the current difficulties. It will recover, and because it takes a number of years to build infrastructure we need to plan now to be ahead of the curve.

Peak demand has grown from about 2,000 MW in 1985 to 5,000 MW in 2005, a growth in energy demand of 150%.

Over the period to 2025 we are forecasting a more conservative growth rate of 60% - this will deliver an expected peak load of 8000 MW, an increase of another 3,000 MW.

In relation to regional development, we take it as a given that the same standards of reliability apply in every region and every county, so that electrical infrastructure does not become a barrier to regional economic and social development, and to the creation of job opportunities for our young population.

We have taken account of the growth potential of each region, particularly the government designated gateway cities & towns, in this strategy.

In relation to renewables, Ireland has, of necessity, set itself very challenging targets. Our role is to facilitate the delivery of these targets. In this we have committed ourselves to being world leaders. Grid25 is part of our direct response to that challenge.

Ireland has a wealth of renewable resources, mainly, but not exclusively, along the western seaboard. The grid is the essential link between that resource and the centres of customer demand.

We also have to cater for the new conventional power stations and further interconnection that will be needed to complement renewables.

For all of these reasons, our analysis points to the need to double the capacity of the Bulk Transmission System by 2025. The most efficient and cost-effective way to do this is to upgrade about 2,300km of the existing network and to construct about 1,150km of new transmission infrastructure.

We will do this using best practice and new technologies where appropriate.

And in developing the grid on behalf of all the people of Ireland we have to achieve the right balance between reliability, cost, and impact on the environment and on communities.

In seeking to achieve that balance, we will be minimising as far as possible new line construction. We will be doing that through extensive rebuild and refurbishment of the existing network.

Where new high capacity lines are needed, in general we will construct them at 400kV rather than at 220kV. This is because 400kV lines have three times the capacity of 220kV for 30% extra cost. Furthermore transmission losses are substantially less at 400kV than at 220kV for the same power transfer.

We are taking a strategic long term view because we believe that it will be more cost-effective and will deliver a more optimised network than if we were to continue with a more incremental approach.

Overall, the strategy represents an investment in Ireland's critical infrastructure of €4billion.

The investment will be shared out among the regions, so as to bring each county and each region up to a level playing field in the reliability and quality of its infrastructure, and in its ability to attract industry and to secure jobs.

Grid**25** will deliver a grid that is fit for purpose; that will be a platform for renewed economic growth and an enabler for balanced Regional Development, and one that will facilitate Ireland in accessing our rich supply of indigenous renewable resources.

We will implement the strategy in a way that delivers value for money and that utilises best practice and appropriate new technologies, while also striking the right balance between reliability, affordability and environmental impact.

We will be identifying and progressing the specific projects required to deliver this strategy with the utmost urgency. In this we need the strong support of all stakeholders and everyone who has an interest in the well being and prosperity of the Irish people.

I am very confident that EirGrid can take on the challenge of building such a network fit for the 21st century. Getting our grid development right can give our industrial partners the confidence to invest in the jobs and plant that will power our future. The grid envisaged by Grid**25** will help ensure our transition to a robust and low-carbon economy.

There are a number of other long term strategic issues that we are turning our attention to. These include the shape of our generation portfolio in the period beyond 2030 when we can expect Moneypoint to have closed. Also we have initiated a study into the economic case for further interconnection – perhaps to GB or to France.

But as time is running out I want to finish by acknowledging that this is a customer conference, and that you – our customers and stakeholders – are central to everything we do as an organisation; and to briefly touch on two initiatives that I believe will strengthen and improve the service we provide.

The first is the EirGrid customer satisfaction survey which was conducted this year. Derek Lawler will talk to you about this in detail later, but I would like to take this opportunity to thank all of you who took the time to participate.

The feedback –all of it constructive - is crucial to enabling us improve as a service-oriented organisation.

Secondly, we will soon be establishing a Transmission User Forum, which I believe can facilitate two-way communication with customers and users of the grid. We hope this dialogue can also help EirGrid in its goal to provide its customers with a world-class service. We will shortly be providing you with more detailed information on the Forum.

Thank you all once again for coming here today and I look forward to your participation in the discussions over today and the workshop tomorrow morning.